

Message Text

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ORIGIN EB-11

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TO AMEMBASSY BUCHAREST NIACT IMMEDIATE

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E.O. 11652: N/A

TAGS: EFIN, RO

SUBJECT: IBRD LOANS AND DOLLAR BONDS

REF: (A) BUCHAREST 2035; (B) STATE 97512; (C) BUCHAREST

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1. U.S. AND BRITISH EXECUTIVE DIRECTORS (EDS) HAVE REQUEST-
ED DELAY IBRD CONSIDERATION OF LOANS TO ROMANIA BECAUSE OF
BOND ISSUE. U.S./ED ON JUNE 11 TOLD MCNAMARA WE WOULD HAVE
DIFFICULTY WITH THE LOANS BECAUSE, ACCORDING TO WOODS, THE
MEETING OF THE ROMANIANS WITH FOREIGN BONDHOLDERS COUNCIL
ON JUNE 10 SHOWED QUOTE NO TANGIBLE PROGRESS UNQUOTE.

2. COUNCIL FIRST PROPOSED THAT ROMANIA OFFER THREE TO FIVE
PERCENT PAYMENT INTERIM SETTLEMENT AS MEANS OF BRINGING
FORTH UNKNOWN BONDHOLDERS (AS HAD BEEN DONE IN RECENT
POLAND/U.S. INTERIM SETTLEMENT), BUT THIS WAS REJECTED BY
ROMANIA AS BEING WITHOUT PRECEDENT FOR ROMANIA. COUNCIL
THEN OFFERED TO SETTLE FOR 50 PERCENT OF PRINCIPAL AND NO
INTEREST FOR BONDHOLDERS WHO COME FORTH (FOLLOWING EXAMPLE

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OF 1947 ROMANIAN SETTLEMENT WITH SWITZERLAND). THIS WAS

FOLLOWED BY OFFER FOR 40 PERCENT OF PRINCIPAL, NO INTEREST. ROMANIANS COUNTERED LATTER OFFER, SAYING THAT THEY HAD BEEN THINKING IN TERMS OF FIVE-TEN PERCENT SETTLEMENT WITH NO FURTHER EFFORTS TO LOCATE ADDITIONAL BONDHOLDERS. COUNCIL

HAD IMPRESSION THAT DEPUTY FINANCE MINISTER IULIAN BITULEANU DID NOT HAVE NEGOTIATING INSTRUCTIONS; UK HAD SIMILAR IMPRESSION IN THEIR JUNE 6 LONDON MEETING WITH DEPUTY FOREIGN MINISTER GLIGA WHICH HAD SIMILARLY UNSUCCESSFUL RESULT.

3. IN COURSE OF C-20 MEETING IN WASHINGTON, BITULEANU APPROACHED UNDER SECRETARY BENNETT OF TREASURY WITH PLEA TO ALLOW IBRD LOANS TO PASS BEFORE THE END OF THE FISCAL YEAR IN ORDER TO TAKE ADVANTAGE OF THE LOWER INTEREST RATE (THE IBRD LENDING RATE WILL RISE FROM 7-1/4 TO 8 PERCENT ON JULY 1). BITULEANU ADMITTED THAT THERE WAS NO REAL PROGRESS IN THE BONDHOLDERS' TALKS AND REFERRED VAGUELY TO "INTERNAL POLITICAL PROBLEMS". HE OFFERED PERSONAL ASSURANCES, HOWEVER, THAT HE WOULD RESOLVE THE MATTER IN AUGUST. OUR REACTION WAS THAT IT WAS HARD TO GIVE GREAT CREDENCE TO ROMANIAN SERIOUSNESS WHEN BITULEANU CAME WITH NO INSTRUCTIONS ON AN ISSUE KNOWN TO ROMANIANS FOR MORE THAN A YEAR IN CONNECTION WITH IBRD LOANS.

4. NEVERTHELESS, WE ARE EXPLORING WITH IBRD WHAT CAN BE DONE, E.G., TO DELAY LOANS BUT MAINTAIN PRESENT INTEREST RATE UNTIL THERE IS PROGRESS ON BONDS, IF THIS IS FEASIBLE. DOES MACOVESCU HAVE ANY SUGGESTIONS ON HOW TO DEFUSE THIS ISSUE APART FROM SEEKING TO FORCE US TO CHANGE LONG STANDING POLICIES? WE DO NOT WISH THIS TO BE A POLITICAL ISSUE, AND FACT THAT MACOVESCU SEEMS TO BE MAKING IT ONE MAKES US WONDER EVEN MORE ABOUT ROMANIAN'S SERIOUSNESS OF INTENT IN RESOLVING THIS ISSUE.

5. ACTION REQUESTED: YOUR ASSESSMENT OF REASON FOR LACK OF FLEXIBILITY ON PART OF ROMANIANS WOULD BE HELPFUL. WHAT ARE PROSPECTS OF BITULEANU DELIVERING ON HIS ASSUR-LIMITED OFFICIAL USE

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ANCE? YOU MIGHT TELL FOREIGN MINISTER MACOVESCU THAT WE ARE DISAPPOINTED AT LACK OF PROGRESS IN THE DISCUSSIONS. SETTLEMENT OF BONDED INDEBTEDNESS IS NOT ONLY A BILATERAL QUESTION BUT ALSO A MATTER OF PRINCIPLE FOR THE BANK IN ITS LENDING POLICIES SINCE ITS INCEPTION, AS WAS MADE EXPLICIT WHEN ROMANIA JOINED BANK. SISCO

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